

**ORGANIZATION
OF THE BLACK SEA
ECONOMIC
COOPERATION (BSEC)**

**KONRAD
ADENAUER
STIFTUNG
(KAS)**

**WORKSHOP ON
“THE ROLE OF CO-OPERATIVES FOR
SME DEVELOPMENT”**

Sofia, 12-15 October 2006

Summary Proceedings

1. The Workshop entitled “The Role of Co-operatives for SME Development” was held in Sofia, the Republic of Bulgaria, on 12-15 October 2006. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Representation of the Konrad-Adenauer-Stiftung (Foundation) (KAS) for Turkey.

2. Welcoming statements were delivered by Ambassador Murat SUNGAR, First Deputy Secretary General of BSEC PERMIS; Mr. Ralf JAKSCH, Resident Representative of KAS for Bulgaria;

2.1. Ambassador M. SUNGAR welcomed the participants to the Workshop which was the 34th of its kind. He commended the Konrad-Adenauer-Stiftung and its Representation for Turkey for their active engagement in and financial support for the realization of the series of Workshops as well as their devotion to the development of SMEs in the Black Sea Region. He expressed gratitude to H.E. Ms. Gergana GRANTSCHAROVA, Deputy Minister of Foreign Affairs of the Republic of Bulgaria for honoring the Workshop.

Recalling the worldwide broad agreement that SMEs constitute the backbone of modern market economies and that SMEs play an important role in transition as well as in developed market economies, Ambassador M. SUNGAR stated that the core element of the political and economic transformation of any country in transition was the creation of a sound private sector and further development of SMEs and entrepreneurship. They were considered one of the principal driving forces in economic development and they promoted private ownership, stimulate innovations and develop entrepreneurial skills.

Presenting a brief account of the work done in the Organization of BSEC on SMEs, Ambassador M. SUNGAR said that BSEC since its inception had devoted particular attention to the development of SMEs and that matters relating to SMEs today ranked high in the priority list of BSEC.

Pointing out to the prominent role of co-operatives in certain fields such as banking, crafts, agricultural production and retailing, and their contribution to effective competition, Ambassador M. SUNGAR stressed the fact that co-operatives were an important part of European economic life and industry, and their performance had a major impact on the lives of the citizens of Europe.

Emphasizing the tremendous influence and impact of the co-operatives on the whole European society, Ambassador M. SUNGAR touched upon the problems and challenges faced by co-operatives in the era of globalization.

2.2. Mr. R. JAKSCH welcomed the Participants of the Workshop on behalf of KAS. He highlighted the future of the SMEs. In EU countries 23 million SMEs represent 75 million jobs. In Germany 80% of the working force are employed by SMEs. This is why KAS supports the creation and growth of the SME sector during the last 10 years in the BSEC region.

3. The welcoming statements were followed by a key-note address delivered by H.E. Ms. Gergana GRANTSCHAROVA, Deputy Minister of Foreign Affairs of the Republic of Bulgaria. She emphasized the next enlargement of the EU by Bulgaria and Romania. With these accession three countries, including Greece will support the BSEC economic cooperation from the Balkan region. She drew attention to the importance of “The Declaration of SMEs at the Dawn of the 21st Century” adopted by the Meeting of the Ministers in charge of SME policies in 2001. In conclusion, H.E. Ms. GRANTSCHAROVA stated that the key words for the present and future were 2“s”+2“i”, which meant security, stability, infrastructure and integration.

4. The Workshop was co-chaired in rotation by Mr. Jan SENKYR, Resident Representative of KAS for Turkey; Ambassador M. SUNGAR; and Dr. Antal SZABO, UNECE (ret.) Regional Adviser on Entrepreneurship and SMEs.

5. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Albania
Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Georgia
Republic of Moldova
Romania
Russian Federation
Republic of Turkey
Ukraine

The list of participants is attached as Annex I and the Program of the Workshop is attached as Annex II.

6. On the second day of the Workshop, Dr. Markus HANISCH, Institute for Co-operative Studies, Humboldt University, Berlin; Dr. Heinz-Otto WEBER, Institute for Co-operative Economics, Phillips University, Marburg; and Prof. Dr. Jost W. KRAMER, University of Technology, Business and Design, Wismar addressed the Workshop as lead speakers.

6.1. Dr. M. HANISCH presented the Role of Co-operatives for SME Development in the EU. He indicated that co-operatives had a strong role for SME development, but that there was no cross-country quantitative research on this subject. He also stated that in EU today nearly 200,000 co-operatives, acting in business sectors, had 80 million people.

According to Dr. M. HANISCH as far as SMEs' behavior is concerned, SMEs have the fear of losing their independence. However, he said that the slogan of DGRW was "unity in autonomy" which meant benefit through cooperation while co-operatives remained independent enterprises. He added that the productivity of SMEs was always lower than the one of large enterprises, but that SMEs served as the engines of economic growth.

He stated that as far as the co-operatives are concerned, they:

- prefer long-term relations;
- risk averse smaller; and
- vulnerability of market share is less.

Dr. M. HANISCH highlighted that cooperation in the EU appeared to be more traditional; however, their role was not the same over sectors and countries.

6.2. Dr. H. WEBER revealed the task of strengthening SMEs through Co-operatives in Germany and made a reference to the words of Hermann Schultze-Delitzsch:

"Several (micro) small (and medium-sized enterprises forces united will become a big force and what you cannot achieve on your own will be possible when you link up with others."

Dr. H. WEBER shared with the participants of the Workshop that in Germany 3.38 million SMEs employed 20 million people and 99% of all German enterprises were SMEs, but by legal form only 0.2% was co-operatives.

From the presentation of Dr. H. WEBER it was learned that co-operatives were strong in:

- banking sector;
- agriculture (e.g. dairy and winegrowers' coops);
- food and associated retail (EDEA, REWE);
- consumer goods trade (e.g. shoes, pharmacists);
- food-producing traders (e.g. bakers, butchers).

6.3. Prof. Dr. J. KRAMER made a presentation on financing SMEs through saving and credit co-operatives. According to Prof. Dr. J. KRAMER, saving and credit co-operatives were natural and traditional partners of SMEs. The speaker stated that they traditionally were

founded to finance farmers, craftsmen and manufacturers. He also said originally these co-operatives offered facilities only to their members, while modern co-operatives tended to do non-member businesses as well.

He also indicated that if SMEs were members of co-operatives, it is the co-operatives' obligation to promote these enterprises; however, this did not mean that member SMEs were promoted regardless risk, earning capacities and financing required.

7. An exchange of experiences on the Role of Co-operatives in SME Development took place. Issues addressed included: i) The State of Affairs of Co-operatives; ii) Legal Framework of Co-operatives; iii) SME as owners of Co-operatives; iv) Types of Co-operatives supporting SME; v) Co-operative banks; and vi) Education through co-operatives.

Question and answer session was held after each presentation.

8. On the third day of the Workshop, presentations were made by Dr. Jordanka JOVKOVA and Dr. Georgi SABUNOV from the University for National and World Economy (UNWE) in Sofia, on “Cooperative Forms of Financing the SME in Bulgaria” and “The Integral Co-Operative in Bulgaria”, respectively.

Final Discussions and Conclusions

9. The following points were made in conclusion:

9.1. Co-operatives are autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises.

9.2. Co-operatives are based on the values of self-help, self-organization, self-responsibility, democracy, equality, equity and solidarity.

9.3. In the tradition of co-operatives' founders, co-operative members believe in the ethical values of the honesty, openness, social responsibility and taking care of others.

9.4. Co-operatives are an important part of European economy: 132,000 co-operative enterprises in the European Union have 83.5 million members and employ 2.3 million people.

9.5. More than 50% of SMEs in Denmark, Finland and Italy engage in cooperation with more than three cooperators. These are the most cooperatively organized countries in Europe.

9.6. SMEs have learned to promote themselves in EU via co-operatives.

- 9.7.** In Germany 3.38 million SMEs employ 20 million people including 99% of all German enterprises, but only 0.2% are co-operatives in legal terms. The co-operatives tend to be very big as 1 out of 4 Germans is a member of a co-operative.
- 9.8.** In Germany the number of co-operatives is not high, but if we look into their activities their significance becomes higher.
- 9.9.** The role of co-operatives is strong in the banking sector.
- 9.10.** Traditional savings and credit co-operatives are economically-oriented, self-help organizations. Traditional co-operatives offer their facilities to members only, while new modern co-operatives tend to do non-member businesses as well.
- 9.11.** In **Albania**, there are no co-operatives yet, as they are perceived as a part of the old socialist past. However, the Government pays important role to promote SMEs.
- 9.12.** In **Armenia**, co-operatives basically exist in the field of agriculture in close cooperation with one large bank. Government's intention is to promote SMEs.
- 9.13.** In **Azerbaijan**, cooperation between large enterprises and SMEs are promoted. There is a Law on Co-operatives and co-operatives actively work in the field of construction.
- 9.14.** In **Bulgaria**, co-operatives and SMEs are competitors in the market. Since the profitability of SMEs is low, their production costs are high, capitalization of earning is very low. For the time being, cooperation is more important than co-operatives. **Bulgaria** does not have credit co-operatives' activities. Their establishment is prohibited by law.
- 9.15.** In **Georgia**, there is a Law on Entrepreneurship Activity which regulates sphere of co-operatives as well as Law on Consumer Co-operatives. Government efforts are oriented to reform the licensing, permits and reform the technical regulatory system.
- 9.16.** In **Moldova**, the main priority of the Government is creation of a favorable climate for SMEs, especially manufacturers. There is a Law on Saving and Crediting Banking Operation of Citizens. According to this Law, 507 savings credit associations were established.
- 9.17.** In **Romania**, there are nearly 400,000 SMEs and 2,000 co-operatives. The legal basis is the Law No 1/2005 regarding organization and functioning co-operatives. The Law determinates the private property for co-operative society, establishes the role of state and introduces a special section of the Trading Register for co-operatives. **Romania** sets up a new body called "Co-operatives Consultative Council". It is important to know that currently there are no SMEs as owners of co-operatives.
- 9.18.** In **Russia**, more than 20 million people (14.3% of the population) lives below the poverty line which is approx. 100 US Dollars per month per capita. Microfinance facilities solve several problems of social issues and development in the depressed rural areas. With the current growth rate by 2010, the SME lending market is expected to reach 25 billion US Dollars.

9.19. In Turkey, tradesmen and craftsmen who had the willingness to establish a new business, created co-operatives. According to Law No 1163, the main objective of co-operatives is to provide with the requested credit in order to realize the aim of their members. The only financial institution that provides credit below market interest rate to tradesmen and craftsmen is “Halkbank”. As of 2005, more than 1,000 co-operatives act in Turkey.

9.20. In Ukraine, there are approx. 5,000 co-operatives. The new legal framework for rebirth of the co-operatives has been done. Co-operatives are legal entities which have been created by individual persons voluntarily. There exists manufacturing and service co-operatives, the second one includes credit co-operatives, too.

Recommendations

10. The following recommendations were made:

10.1. The Governments of the BSEC Member States are recommended to consider co-operatives based on self-help, self-administration and self-organization as important parts of their national economies. They deliver well-being to citizens and promote entrepreneurship.

10.2. BSEC Member States are encouraged to review their legislation in the line of international declarations and recommendations such as the UN Resolution No 56/114, ILO Recommendation 193, EU Commission COM (2004)18 and others.

10.3. It should be kept in mind that co-operatives should be based on self-initiated and voluntary decisions by their members. They should be member-driven and economically oriented self-help organizations. At the same time, they should not be perceived as a part of the old socialist past, but an efficient instrument of contemporary entrepreneurship.

10.4. It should be taken into consideration that if SMEs are members of the co-operatives, the co-operatives need to promote these enterprises. However, this does not mean that member SMEs are promoted regardless of risk, earning capacities and financing required.

10.5. SMEs tend to promote themselves in the EU region via co-operatives, but it does not mean that all BSEC countries should necessarily follow this practice.

10.6. BSEC Member States are encouraged to promote the principles and values of the co-operatives by raising awareness, facilitating community cooperation, especially in remote areas in order to promote establishment of co-operative societies like credit unions, agricultural farms and supply channels.

10.7. Governments of the BSEC Member States are invited to promote dialogue between large multinational corporations and newly created producing and servicing co-operatives in order to promote their indigenous SMEs and entities.

10.8. The BSEC Member States with advanced co-operative experience such as Greece, Romania and Turkey are invited to provide technical assistance to the other Member States.

The Black Sea Trade and Development Bank (BSTDB) is encouraged to facilitate creation of non-commercial financial institutions like savings and credit banks or associations.

Any other business

11. The representative of the Republic of Moldova invited the participants, their governmental authorities and SME support institutions to participate in an international SMEs conference to be held on 4 May 2007 during the 7th Regional Exhibition-Forum of Small and Medium Business Manufacturers and Service Providers to be organized on 3-5 May 2007, by the Ministry of Economy and Trade of Moldova and MOLDEXPO in Chisinau.
